

Are you wondering if you should purchase life insurance? If there is someone who is dependent on you for financial support, it is a beneficial thing to have. It can ensure that your loved ones are not struggling to pay the bills if you pass away. It can also help them replace the services that you provide. For example, if you are a stay-at-home parent, having life insurance can allow the other parent to pay for daycare. There are many types of life insurance products available, so before you contact an insurance agent, make sure you have a basic knowledge of the options that are available.

## **Term Insurance**

As the name implies, you buy term insurance for a specific period of time, usually between 1-30 years. If you die within that timeframe, your beneficiary will receive a preset amount of money - the death benefit. If you fail to pay your premiums, cancel the policy, or die after the term ends, neither you nor the beneficiary receive anything.

The major advantage of a term life insurance policy is that if you are young, you generally pay extremely low premiums for a substantial death benefit. However, as you get older, your premiums will increase when you renew or purchase a new policy. Term insurance is usually the best option for someone who anticipates only needing insurance for a limited period of time (e.g., until the mortgage is paid off or the kids are grown). If you plan on have life insurance for the rest of your life, long term, cash-value insurance may provide a better deal.

If you have life insurance through your employer, it is probably a term policy. The death benefit for employer-provided life insurance policies is often equal to one year's salary. Having insurance through work does not mean that it is not beneficial to purchase a policy on your own. While a work policy may be enough to cover funeral costs, it is probably insufficient to cover outstanding debts or support dependent family members. Additionally, you may lose the policy when you leave your job.

## **Cash-Value Insurance**

With a cash-value life insurance policy, part of your premium pays for the life insurance (which, like with term insurance, pays a death benefit if you die), and part of it goes into a savings plan. The insurance is

permanent – you can keep it as long as you make the payments. If you decide to cancel the plan early, you get back what is in the savings plan.

The downside of cash-value insurance policies is that the premiums tend to be considerably more expensive than for term plans. Before you buy this type of insurance, think about if your situation justifies paying the extra cost.

There are three basic types of cash-value life insurance:

- *Whole life insurance* is the standard cash-value policy. The premiums are fixed for the duration of the policy, and the life insurance company chooses where to invest the funds in your savings plan.
- *Universal life insurance* offers payment flexibility. You choose what premium to pay and can increase or decrease your payments anytime. You can also change the death benefit amount. The payment is broken down into three components: the mortality charge for the death benefit, administrative costs, and the savings plan. If your payment is lower than the mortality charge and administrative costs, the shortage is subtracted from your savings plan. If there is not enough in the savings plan to cover it, your policy lapses.
- *Variable life insurance* gives you the ability to choose where to invest the funds in your savings plan. There are two basic forms of variable life insurance - one with fixed premiums, called straight variable life, and the other with flexible premiums, called variable universal life. In either form, this type of policy is risky. If your investments perform well, the cash value portion of your savings does well. If they fail, your savings suffer.

Life insurance protects loved ones who depend on you for financial security and is a sound part of many long-term financial plans. However, as with all purchases, you want to make an informed choice. Most insurance agents make their living through commissions, so look for and resist high-pressure sales techniques. Before purchasing a policy, check out how the company is rated by a rating agency, such as A.M. Best, Moody's Investors Service, and Standard & Poor's, to make sure the life insurance company will be around when you need them to be.