

Don't be Afraid of Life Insurance

A client once shared with us: "I always tell my friends that if I ever get hit by a truck and am lying on the street dying what would scare me is not death, but the overwhelming guilt of not having provided for my family."

Can you relate? If something happens to you, how will your family pay the mortgage, cover childcare costs, or put your kids through college? If you don't know, then it's time to review your life insurance coverage – or purchase some.

Something else we often hear from clients is this: "How much life insurance do I need?" As with anything, the answer depends on your individual situation. Life insurance offers varying levels of protection through different products, each with their own particular advantages. We'll review the five primary forms here so you can have a basic understanding before calling us for more information.

- **Term Life Insurance** - The simplest to understand and the cheapest to buy on a net cost basis. It is available in different amounts for a set term, or period of time, such as 10, 15, 25, or 30 years. The premiums are guaranteed not to increase. And, as long as you pay your premium, the company cannot cancel your policy. How long should your term be? That depends on your stage in life. If you have young children and decades to go on your mortgage, try 30-year term life. If your children are grown and your home is nearly paid off, 10-year term might be more appropriate. Remember this about term life insurance: once the term of your policy ends, your policy expires and does not offer a death benefit.
- **Whole Life Insurance** - Whole life provides a death benefit and an accumulating cash value. The premiums don't increase with age, as the cost of the policy is averaged over your life. The cash value increases with time until it equals the death benefit at age 100. Whole life is also known as ordinary (or permanent) life insurance. This type of policy never has to be renewed or converted. The cash value is an amount of money you are guaranteed to receive in the event of policy cancellation. You also have the right to borrow against the cash value on a loan basis.
- **Universal Life Insurance** - Combines the low-cost protection of term insurance with a savings component invested in a tax-deferred account. Universal life was created to provide more flexibility than whole life by allowing the holder to shift money between the insurance and savings components of the policy. The cash value of the savings may be available for a loan to the policyholder. Premiums, which are variable, are broken down by the insurance company into insurance and savings. Therefore, the holder can adjust the proportions of the policy based on external conditions. If the savings are earning a poor return, they can be used to pay the premiums instead of spending more money. If the holder remains insurable, more of the premium can be applied to insurance, increasing the death benefit. Unlike with whole life, the cash value investments grow at a variable rate that is adjusted monthly. There is usually a minimum rate of return. These changes to the interest scheme allow the policyholder to take advantage of rising interest rates. However, in the case of falling interest rates, premiums may increase and even cause the policy to lapse if interest can no longer pay a portion of the insurance costs.
- **Variable Life Insurance** - Variable life insurance combines the protection features of life insurance with the investment potential of common stocks. This policy does provide a minimum guaranteed death benefit, but the actual benefit could be higher depending upon the performance of the investment chosen. Because it does rely upon the stock market's growth, the cash value also fluctuates. There are no absolute guarantees to the amount of the end cash value. Unlike universal life, the premiums paid are fixed. There are policy provisions that allow loans to be made from the cash value.
- **Variable Universal Life** - A form of whole life insurance which combines some features of universal life insurance, such as premium and death benefit flexibility, with some features of variable life insurance, such as more investment choices. Variable universal life adds to the flexibility of universal life by allowing the holder to choose among investment vehicles for the savings portion of the account. The differences between this arrangement and investing individually are the tax advantages and fees that accompany the insurance policy.

As you can see, there are many options available when it comes to life insurance. And, you no doubt have many questions that need to be answered before you can determine what is right for you and your loved ones.

Call us today at (818) 508-9925 or (661) 295-4624. We can answer your questions, calculate a recommended amount of insurance based on your current financial situation, and help you provide your family with the protection they deserve.