Life Insurance 101

What is the Right Kind of Life Insurance?

All policies are not the same. Some give coverage for your lifetime and others cover you for a specific number of years. Some build cash values and others do not. Some policies combine different kinds of insurance, and others let you change from one kind of insurance to another. Some policies may offer other benefits while you are still living. Your choice should be based on your needs and what you can afford.

There are two types of life insurance: Term (like renting a home) and Perm (like owning a home and building Cash Value). Both have very valuable uses. Term insurance generally has lower premiums in the early years, but does not build up cash values that you can use in the future for things like retirement, disability, college tuition, etc. You may be surprised to know that less than 1% of term policies ever pay out. The reason is, when you need it the most, typically in your 70's and 80's most people can't afford term life insurance. Also, trying to get a new policy at that age can be extremely expensive because of health issues that compile in our older years.

Typical uses for Death Benefit Life Insurance:

1. **Replacement of income. Many times this is overlooked. If the insured died, you want to make sure that the spouse can still live a comfortable lifestyle, free of worry.**
2. **Funeral Expenses**
3. **Debt**
4. **College tuition for the children**
5. **Estate Planning. There are taxes due at the death of the second spouse. Do you want your children to sell assets to play for these taxes or would you rather replace your wealth the easy way, with Life insurance held outside of your personal estate?**

Typical uses for Living Benefit Life Insurance:

1. **Tax Deferred Growth**
2. **Tax Free Income**
3. **Judgment Proof**
4. **Consistent/Competitive Rate of Return**
5. **No contribution limits**
6. **No withdrawal limits**

Term insurance covers you for a term of one or more years. It pays a death benefit only if you die in that term. Term insurance, while you are young, generally offers the largest insurance protection for your premium dollar. It does not build up cash value.

At the end of term, you will need to pass a physical examination in order to write a new policy, and premiums will increase.

Perm (Cash Value) Life Insurance is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds cash value that may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value. You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You can also use the cash value to increase your income in retirement or to help pay for needs such as child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy. Cash value life insurance may be one of several types: Whole Life, Universal Life, and Variable Universal Life are all types of cash value insurance.

Whole Life Insurance covers you for as long as you live if your premiums are paid. You generally pay the same amount in premiums for as long as you live. When you first take out the policy, premiums can be several times higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 10 years, or until age 65. Premiums for these policies are higher since the premium payments are made during a shorter period. These policies grow on a tax deferred basis, pay you a dividend or return of premium, and can even be used as income later in life on a tax free basis. Many times these policies are used as a Living Benefit, not just a Death Benefit.

Universal Life Insurance is a kind of flexible policy that lets you vary your premium payments. You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the new death benefit. The premiums you pay (less expense charges) go into a policy account that earns interest. Charges are deducted from the account. If your yearly premium payment plus the interest your account earns is less than the charges, your account value will become lower. This usually happens later in your life. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value. The Cash Value in these policies also grows tax deferred and income is tax free.

Variable Life Insurance also has flexible and premium payments can vary. It is a Cash Value policy where the death benefits and cash values depend on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus from the company when buying this kind of policy and study it carefully. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit. The Cash Value in these policies also grows tax deferred and income is tax free.

Hanes L. Torbett

Registered Representative

Torbett Insurance & Financial Services

www.TorbettFinancial.com

2306 Knob Creek Rd. Ste 104

Johnson City, TN 37604

423.282.8759 office