Types of Life Insurance

There are two basic types of life insurance, Term and Cash-Value. Term is the simplest (and cheapest) life insurance that you can purchase. With Term, you are paying premiums to an insurance company in order to provide a death benefit to your named beneficiaries in case you die. You are not accumulating any cash value. Also, Term is usually sold for coverage periods of 1, 5, 10, or 20 years. It's considered temporary insurance, because it is intended to cover some financial obligation that will disappear in a short time. For example, you may have 20 years left on a home mortgage. You could obtain a 20 year Term life insurance policy that would pay off your mortgage in case you die prematurely. With Term, coverage ends when you either stop paying premiums or the agreed to term ends. Most Term policies are renewable, meaning that you don't have to provide proof of insurability again. But, expect to pay a higher premium for the new policy. In fact, the big disadvantage with Term life insurance is that it becomes more expensive as you age; to the point of being prohibitively expensive.

There are several types of Cash-Value insurance policies; the insurance companies have been very accommodating in addressing their customers' requests. With all of these policies, a portion of your premium is for the insurance coverage itself, and the remaining portion goes into an account. This could be an investment or savings account.

Whole Life Insurance is intended to provide coverage for, you guessed it, your whole life. And it will, as long as you pay the premiums. Also, the policy has an accumulating cash-value. The difference types of Whole Life are discussed next.

Ordinary Life is the first discussed. With Ordinary life, the death benefit and premiums are fixed, the policy has a cash-in value, and if you live to be 100 (soon to be 121), the face amount of the policy is paid to the policy holder. Ordinary Life is more expensive than Term insurance, for the same amount of coverage. Obviously, it has to be because it has a cash-in value, while Term does not. As a result, people tend to buy less than they actually need.

With *Variable Life* insurance, the policy holder can control investing of the cash-value of the policy. Depending on how well this investing goes, the death benefit and cash-in value can either decrease or increase. Premiums are fixed, the same as they are with Ordinary life.

Universal Life is very flexible. It allows the policy holder to vary the premiums, both the amount and frequency. If the cash value is sufficient, premiums can even be discontinued. The death benefit can also be increased or decreased.

Variable Universal Life is a mix of Variable & Universal Life. The premiums are variable. Also, the policy holder determines how the premiums are invested.

There are other types of life insurance, and any good insurance agent can give you a rundown of all the different types. Insurance companies typically like to pitch certain types of insurance as investment vehicles. Technically, some of them are. However, before you decide to use an insurance policy as an investment, considers all of the costs associated with it, as well as the expected return.

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