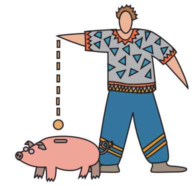
Life Insurance Basics



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There are two basic kinds of life insurance products-term and cash value. Both have a number of variations, each with its own pros and cons.

With term (also called "pure") insurance, your beneficiaries get a death benefit of the face value amount of the policy if you, the policyholder, die while it is in force. It has no cash value to you. Term insurance is generally only available up to age 65 (some go to 75), and the premiums go up as you get older.

Term insurance policies are classified as one of the following:

- **Renewable term**
  (may be renewed at the end of the term)
- **Guaranteed renewable**
  (guaranteed the right to renew when the term expires)
- **Convertible term**
  (may be converted to a whole life policy)

There are different types of term insurance policies. *Straight* term policies are written for a specific number of years-1, 5, 10, or 20. Throughout the policy's term, beneficiaries receive the full face value of the policy. The death benefit is the same no matter when the policyholder dies. Typically, the annual premium goes up with the policyholder's age as the policy is renewed.

Under *decreasing* term policies, there is a fixed annual premium, but the face value of the policy goes down as the policyholder gets older. This might be a good policy for someone whose coverage needs are going down with age, such as someone who bought the policy to pay a declining mortgage balance.

Cash value insurance policies are sometimes called *whole life* or *permanent insurance*. A cash value policy provides a decreasing amount of actual insurance protection over time, but it has a savings component that increases over time.

There are some potential hazards to consider with cash value insurance:

- Even though they have a savings element, the policies may have higher premiums and not provide adequate protection.
- If a family commits to the higher-priced premium and faces a financial emergency, they may be tempted to drop the policy and lose all coverage.
- There are often savings and investing options that pay better than the return on the savings portion of the cash value policy.
- Money can be "borrowed" from the cash value of the policy-a temptation in tough times, and unfortunately the policyholder is borrowing from the beneficiaries. It might be argued that this defeats the purpose of insurance protection to begin with.

It is important to remember that there are many different ways to save or invest, but actual life insurance protection is the only way to ensure an instant estate when someone dies. Term insurance is often the least costly way to make that happen.

For additional information on insurance topics, see http://insurance.mo.gov/index.htm

For additional information on life insurance, see http://insurance.mo.gov/consumer/lhindex.htm

Sources:

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- Weagley, R. *Risky Business: Family Insurance Planning,* GH3420, MU Extension, University of Missouri-Columbia, October 1993.

If you'd like to learn more about this and other personal finance topics, the University of Missouri offers *'Personal & Family Finance'* a correspondence course, through the Center for Distance and Independent Study (800-609-3727). Information about this course is available at:
http://cdis.missouri.edu/CourseInfo/DetailCourseInfo.asp?1985