LIBERTY INSURANCE ASSOCIATES

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Personal life insurance: the basics

What's the purpose of life insurance?

Life insurance usually is purchased by individuals to guarantee a specific sum of money to a designated beneficiary upon the death of the insured, or to the insured if he or she lives beyond a certain age. The payment may be used by the beneficiary at their discretion unless provisions are specified in a will. The capital sum may assist such matters as the loss of income due to the death, and other expenses, such as medical and funeral bills, child-care costs, college expenses and the costs associated with day-to-day living, such as mortgage and rental payments. Some policies contain features providing retirement income and cash savings. Life insurance may offer both protection and savings.

What types of life insurance are available?

There are many varieties of life insurance policies, but most can be divided into two basic types: term and permanent.

Term-life insurance offers protection for a set number of years at a fixed premium and generally offers no savings feature or cash surrender value. It usually is recommended if your family needs financial protection for a specific period of time, whether it's one, five, 10 or even 20 years. Term insurance helps cover needs that will disappear over time, such as a mortgage or college expenses. It also is recommended for families that need a large amount of life insurance protection and are on a limited budget, since term insurance premiums can be less expensive than other types of life insurance. Some term-life insurance policies contain a "convertible" feature, whereby the term policy can be converted to a whole-life policy, usually without a medical examination. Term insurance also may be offered as part of a group or as an employee benefit.

Permanent insurance may be the right choice for you if you need long-term financial protection. As long as you pay the premiums, your beneficiary will receive the death benefit. Premiums can be fixed or flexible to meet your personal financial needs. Permanent tax-deferred life insurance also builds up a cash value, which you can use during your lifetime. You also can borrow against the policy's cash value to help pay college expenses, pay the policy's premiums or provide paid-up insurance. Policy loans reduce the death benefit and may leave your beneficiary without adequate protection.

You also can convert the cash value of permanent insurance into an annuity, which can provide you with an income for life. You can cancel the policy and use its accumulated cash value any way you wish. You may owe taxes on some of the cash value if the sum exceeds what you have paid in premiums.

There are different types of permanent life policies:

- Whole or ordinary life is the most common type of permanent insurance. The premiums and death benefit generally remain constant over the life of the policy.
- Universal or adjustable life offers you flexibility in both premium payments and the death benefit your family receives. You can adjust the death benefit and your premium payments, within certain limits, to fit your financial situation.
- Variable life policies have a value tied to the performance of financial markets. The death benefit and cash value vary with the performance of a portfolio of investments, which you select. The cash value and death benefit may grow more quickly in a variable life policy than in other types of policies, but you also have more risk. If the market does not perform well, your cash value and death benefit may decrease. Some policies guarantee that the death benefit does not fall below a minimum level.
- Variable-universal life policies combine features of variable and universal life policies. You have the investment risks and rewards characteristic of variable life insurance, coupled with the ability to adjust your premiums and death benefit that is characteristic of universal life insurance.

How are life insurance premiums determined?

In addition to being based on the type of policy issued, premiums are determined by insurers through the use of mortality tables. These tables are statistical analyses of the deaths of a given group of individuals, beginning at birth and extending until all members of the group have expired. For example, a mortality table will show the likelihood of death in terms of the number of deaths per thousand persons and in terms of the expectation of death at each age. So your age is a top factor in determining your life insurance premium. Your health, occupation, hobbies and many other factors also are used.

There are many life insurance plans available. For the policy that best meets your needs, contact our agency.

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