<u>Ea$y Money – Insurance: Life Insurance</u>

What it is: We purchase life insurance to cover expenses for your dependents in the event that you die prematurely. There are two basic types of life insurance, term insurance and cash value insurance. Term policies provide life insurance for a specified period and provide benefits in the event of death, but the policies don't have cash value. If you have a limited amount to spend, and only need the additional coverage for a specific period of time (for example …until the children graduate from college) then, term insurance is a better choice. You will likely get more coverage for a more reasonable cost than through a cash-value policy.

Cash-Value insurance combines death benefits and cash accumulation. The buyer of a cash value policy pays more in the early years than for term insurance, but the money not needed to pay for the cost of the death benefit accumulates as interest. Some other features include the ability to borrow from the policy's cash value and tax free interest accumulation.

How it works: When you buy term insurance you decide how long you want the policy to last. Usually you are able to renew the policy without a physical examination during the policy period and some term insurance can be converted to cash value insurance up to a specified age.

Cash –Value policies provide death benefit coverage for your entire life span rather than a specified period like term insurance and the payments will remain consistent over your life time. But in general the policies are more expensive than term insurance and are often limited and very conservative investment options. You may be better off buying term insurance and investing a portion of funds.

Why it matters: You need to think carefully about choosing your level of coverage when obtaining a policy. Too little coverage may leave your dependents financially strapped and too much coverage may become difficult to maintain. If you purchase a cash-value policy and miss a premium payment it could mean a loss of your entire investment.

Who should care?: The general rule of thumb is that you will need to increase your life insurance coverage if you buy a home, get married, have a child, or are about to retire. There are several insurance calculators to help you estimate the coverage you might need and be sure to take time to get estimates from several providers.

For more information

- Iowa Insurance Consumer Advocate http://insuranceca.iowa.gov/
- Iowa State University Extension and Outreach Money Blogs tips http://blogs.extension.iastate.edu/moneytips/
- Iowa State University Extension and Outreach website at www.extension.iastate.edu/humansciences/
- National Association of Insurance Commissioners, www.naic.org

A simple strategy. The purpose of life insurance is to allow your family members to pay the bills and live their lives as planned despite your absence. That's why some experts and most online calculators sponsored by the insurance industry seek to figure the chunk of investment capital it would take to replace all of your income for 20 years or longer, held securely in Treasury or municipal bonds and certificates of deposit. With savings yields low and the prospect of longer life expectancies in retirement, this approach tends to aim high, especially if you assume raises and promotions. "You can find people who are extremely minimalist with insurance recommendations," says Maurer. "But I see an overabundance of people who end up justifying more insurance than I think is reasonable.
Read more at http://www.kiplinger.com/article/insurance/T034-C000-S002-how-much-life-insurance-do-you-need.html#q4isSveDxXHHFDML.99

The policyholders who benefit most from purchasing a this type of policy may be those who may have **little** interest or experience in investing, but who want to secure a **permanent** death benefit.

If you don't see or the need for a permanent policy or need to cut costs, a term life insurance policy might be a better choice. (Read an outline of the term vs. whole discussion.) If, on the other hand, you want permanent protection but with more hands-on control over the cash involved, universal or variable life insurance might better fit the bill.

Most Importantly

You need to think carefully about choosing your **level of coverage** when it comes to whole life insurance. Too often consumers make the mistake of inadequately covering, or, even worse, financially overextending themselves. With a whole policy this would be a tragic error, because defaulting on premium payments can mean policy cancellation and the loss of your entire investment.

This is why it is crucial to **assess** your needs and confer with an insurance **professional** before you commit to a plan.