

Survivor Income Needs

Permanent Life Insurance

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What's Permanent Life Insurance And When Does It Fit Your Needs?

Once you have determined that you need life insurance, and calculated how much coverage you require, you will have to choose between several types of life insurance. There are two very different types of life insurance contracts -- term and permanent.

Permanent Life Insurance Overview

As the name implies, permanent (cash value) insurance is best suited for the individual with a long term (often indefinite) need. A permanent policy is really a combination of "pure insurance" and an investment element. Premiums are considerably higher than term rates in the beginning years, but may drop significantly, or even disappear, in later years. Other differences may include an increasing death benefit, a "cash value" associated with the policy, and tax-advantaged borrowing privileges against your cash value.

There are two unique types of permanent insurance. Each has its own benefits and disadvantages which must be weighed carefully.

Whole Life Insurance

This type of coverage covers you for as long as you live. Usually, this type of policy has a level premium for the life of the policy. Initial premiums are high, compared with term insurance premiums, but eventually they become lower than the premiums you would pay if you had kept renewing a term policy.

Universal Life Insurance

With Universal Life coverage, which also covers you for as long as you live, you can vary your premium payments and the face amount of your coverage. Most of your premium payment goes into an account, which earns interest. You may borrow against the cash value, but eventually, if the balance continues to drop, your coverage will end. To prevent that, you would have to start making premium payments again, increase your premium payments, or lower your death benefits. Generally, your policy will state that it will pay the premiums from the cash value of your policy.

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