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NAVIGATING LIFE INSURANCE

Part I: Find the Best Policy for your Unique Situation

There are many great reasons to purchase life insurance. Common uses range from paying final expenses to replacing spousal income to distributing your wealth and business interests evenly amongst heirs. One of the most famous adages is the following: ***Buy term life and invest the rest.*** Is it true?

A quick online search generates hundreds of articles recapping the traditional financial benefits in addition to more specialized advice, plus countless companies promoting their products. While it ultimately depends on your personal economics, we will attempt to cut through the clutter and answer this age-old question.

First, it is necessary to understand the two main types of life insurance available for purchase:
Term Life Insurance and Permanent Life Insurance (Whole or Universal)

Term life insurance offers coverage for only a "short-term" period and has relatively inexpensive premiums compared to other options. However, if the specified term ends before the insured individual passes away, there is no death benefit for heirs. Essentially, term life is just one component of the more permanent life insurance policy. It covers solely your "pure risk" of an early or unexpected death. It is very efficient for this purpose and provides valuable peace of mind.

Conversely, permanent life insurance is designed to provide coverage throughout your entire life. Provided all required premiums are paid, the death benefit is released to chosen beneficiaries. Additionally, part of the monthly premium goes toward "cash value," an integral investment component.

So, is it better to buy term and invest the cash value component outside of your life insurance policy into potentially more lucrative financial vehicles? The answer is complicated, but the adage only holds true if the following statements are also true:

1. The insured actually allocates the additional cash into another prudent investment;

2. The chosen outside investment is stable and performs well over time; and

3. Funds generated by outside investment(s) are not eroded by income tax consequences.

The main counter argument here is that funds within a permanent life insurance policy grow income tax-free. There is a DAC tax, but it is internal and very small. Death benefit proceeds are also income tax-free for the receiving beneficiary. With so many variables, it is extremely difficult to determine which scenario is ultimately the most advantageous.

We all have different objectives, plans, and circumstances. This is why it is essential to build a financial plan that incorporates these personal factors. Health and age dramatically affect the price of life insurance and should also be considered while determining your overall financial goals.

Two following articles will further explore the many beneficial categories of permanent life insurance, and how to incorporate them into successful wealth management strategies and estate plans.

Visit www.probate-florida.com to read more about this subject and other estate planning matters.

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