

Types of Life Insurance Policies

In choosing the type of life insurance policy you purchase, consideration must be given to the need which is being filled, e.g., creation of an estate, payment of estate settlement costs (federal and state death taxes, last illness and burial costs, probate fees, etc.), business buy-out, key-man coverage, etc.



Decreasing Term

Level premium, decreasing coverage, no cash value: Used for financial obligations which reduce with time, e.g., mortgages or other amortized loans.

Annual Renewable Term

Increasing premium, level coverage, no cash value: Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

Long-Term Level Premium Term

Level premium, level coverage, no cash value: The annual premiums are fixed for a period of time, typically 5, 10, 15 or 20 years. Used for financial obligations which remain constant for a short or intermediate period, e.g., income during a minor's dependency.

Whole Life

Level premium, level coverage, cash values: Cash value typically increases based on insurance company's general asset account portfolio performance. Used for long-term obligations, e.g., surviving spouse lifetime income needs, estate liquidity, death taxes, funding retirement needs, etc.

Single Premium Whole Life

Entire premium is paid at purchase, cash values, level coverage: Provides protection as well as serving as an asset accumulation vehicle.

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Universal Life

Level or adjustable premium and coverage, cash values: Cash values may increase, based on the performance of certain assets held in the company's general account. Used for long-term obligations or sinking-fund needs, estate growth, estate liquidity, death taxes, funding retirement needs, etc.

Indexed Universal Life

Level or adjustable premium and coverage, cash values: Cash values may increase, based on the performance of an underlying stock or bond "index." The death benefit may increase or decrease (but not below a guaranteed minimum) depending on investment performance. Used for long-term obligations or sinking fund needs, estate growth, estate liquidity, paying death taxes, funding retirement needs, etc.

Variable Life and Variable Universal Life

Level or adjustable premium, level coverage, cash values: Used for long-term obligations, by those individuals who are more active investors, for estate growth, and death tax liquidity.

The death benefit may increase or decrease depending on investment performance. The policy owner directs cash values to a choice of investment accounts (bond, stock, money market, etc.). However, cash values are not guaranteed.

Note: Withdrawals and loans may be available from permanent policies. Withdrawals and policy loans may reduce the death benefit and will reduce the cash value of the policy. There are different income tax consequences if they are modified endowment contracts.