FINANCiAL *fitness*

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Which Life Insurance Policy Is Right For You?

Life insurance is often an essential component of a comprehensive financial plan. It can be utilized for a number of different purposes, including but not limited to: paying for final expenses, covering outstanding debt obligations, paying for educational expenses for dependents, as well as future income or savings replacement. While insurance is a critical component of a financial plan, individuals are often uninformed or misinformed regarding the options available due in part to the plethora of features that policies can possess. However, all policies are typically designed to provide a tax-free benefit that is paid to the beneficiary(s) at the death of the insured. There are a number of life insurance products to choose from, including: term, whole life, universal life, variable life and variable universal life.

Term insurance is a temporary form of insurance that provides coverage at a fixed rate for a limited period of time. After the term expires, the premiums are no longer guaranteed and insurance *(if still desired)* must be obtained at new rates. The advantage of term insurance is that it is the least expensive way to purchase a substantial death benefit. However, if insurance is needed past the expiration of the term, the insured will be required to undergo proof of insurability. In contrast to the temporary nature of term insurance are permanent life insurance policies that include whole life, universal life, variable life and variable universal life.

Whole life insurance is guaranteed to remain in force for the insured's lifetime, provided required premiums are paid. Premiums are fixed, based on the insured's age when the policy is purchased and are generally more expensive than term policies. Unlike term insurance, whole life has a cash-value component. The cash value is the cash amount offered to the policy owner upon cancellation of the contract. The insurance company will generally guarantee that the policy's cash values will increase every year regardless of the performance of the company or its experience with death claims.

A universal life policy offers more flexibility compared to whole life insurance. You have the opportunity to change the amount and frequency of premium payments. You can reduce or stop your premiums and use your cash value to make your premium payments. It is important that you discuss the status of your cash value with your insurance advisor before you stop making premium payments. Your policy may lapse if you cease to pay premiums and have insufficient cash value to cover the cost of insurance.

Variable life insurance was introduced as a way for insurance companies to compete for investment dollars. This type of insurance allows the insured to invest the cash value in securities for a greater return. The death benefit and cash value depend on the investment success of the separate account. Those investments can be anything from stocks to bonds to mutual funds but are restricted by what the insurance company offers in terms of investment options.

Variable Universal Life (VUL) insurance, as the name suggests, is a policy that combines variable and universal life insurance. This is one of the more popular insurance policies because it gives its policyholders the option to invest as well as alter the insurance coverage with ease.

WHEN SHOULD A 1035 EXCHANGE BE CONSIDERED?

A "1035 Exchange" refers to an exchange of a life insurance policy that is currently owned for a new policy insuring the same individual. Exchanging an existing life insurance policy for a new one may warrant consideration from an economic standpoint. If new coverage is more affordable, it is possible to recognize a cost savings or obtain more insurance for the same premium dollars.

Most permanent life insurance policies have surrender charges that are incurred when policies are terminated early. This charge is assessed against the cash value and reduces the existing cash value available. Additionally, when a policy is exchanged the insured is still required to go through the underwriting process. If the insured's health has deteriorated since the existing policy was in-force, higher premiums may be required to offset their riskier profile. Premiums could also increase due to their increase in age. The pros and cons of exchanging an existing life insurance policy for a new one need to be weighed before embarking upon such a decision.

Sandy Carlson has over eighteen years of wealth management experience including income taxation, retirement planning, executive compensation planning, insurance, banking, trust administration and estate planning. She is a Certified Divorce Financial Analyst™ (CDFA) and also holds the QKA designation by the American Society of Pension Professionals & Actuaries. She is President-Elect of the Financial Planning Association, a Tax Instructor in the CFP Program at Queens University, and is a member of the Charlotte Estate Planning Council. Sandy values getting to know her clients and providing creative, integrated solutions for accumulating, preserving and transferring wealth.