



Why Life Insurance Matters

Besides the death benefit, it may also help you financially during your life.

Provided by R. Scott Ramsay

As Bankrate.com noted, 43% of Americans have no life insurance. Some view it as optional; some have simply procrastinated when it comes to buying a policy. Others believe that they can't afford it.¹

In reality, life insurance is cheap today. If you just want term life coverage – essentially, life insurance that you “rent” for X number of years – you may find it quite affordable wherever you live. Plugging in some sample variables, a little comparison shopping online reveals that a 40-year-old, non-smoking woman in excellent health who lives in New Hampshire would pay premiums of just \$380-420 a year for a 20-year level term policy with a \$500,000 death benefit. (She would have several providers to choose from.)²

If you choose permanent life insurance rather than term life, new possibilities emerge. In addition to a benefit for your heirs at your death, an insurance policy capable of building cash value gives you more capability to address financial needs during your lifetime.

Permanent life insurance allows you the opportunity to build cash value. The premiums on a whole, universal, or variable life policy are higher than for a term life policy, but there is a reason for that – as you pay into one of these policies, the policy, itself, accumulates cash value. That cash value grows without being taxed.³

If you need a loan someday, a cash value life policy may give you an option. Some of these policies allow withdrawals of the cash value, meaning that you can borrow against the cash value once you have funded the policy with a sufficient amount of premiums. (You can even tap the cash value to pay the premiums, if you like.) Naturally, loans taken from the policy will reduce the death benefit amount. The policyholder faces no requirement to pay back the loan, but the loan is subject to interest.³

Many of these policies come with degrees of flexibility. You may be able to transfer some of the cash value into another insurance product with the death benefit unaffected.

The death benefit may do much to preserve your loved ones' quality of life. Life insurance death benefit proceeds are almost never taxed (only under rare circumstances does the IRS count them as gross income). So a permanent life policy will give your heirs money to address funeral and burial expenses and possible estate taxes, and those funds could also provide them with part of their inheritance.⁴

Cash value life insurance also means permanent coverage as long as the policy is in force. The death benefit will not be readjusted or diminished if you fall ill, and if you buy a policy in your thirties or forties, you save money compared to those who purchase a policy after age 50.

Permanent life insurance is also highly useful in estate planning. Several kinds of trusts may be used in conjunction with permanent life policies, such as irrevocable life insurance trusts (ILITs), special needs trusts, spendthrift trusts, simple living trusts, and more. Often, a trust can be named as beneficiary of a permanent life policy, an estate planning step toward an eventual financial benefit to heirs.⁵

First and foremost, life insurance matters for its death benefit – but those considering it should not overlook its financial utility in other situations during the course of life.

Guaranteed interest rates are based on the claims-paying ability of the underlying insurance company. Surrender penalties may apply. Additional benefits and riders may increase the cost of the premium or reduce the interest rate earned. Applicants are subject to underwriting, which may include medical history and current health.

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Citations.

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