

What Type of Life Insurance Is Right For You? Understand the Difference Between Term and Cash Value

All life insurance policies have one thing in common – they’re designed to pay money to “named beneficiaries” when you die. The beneficiaries can be one or more individuals or even an organization.

In most cases, policies are purchased by the person whose life is insured. However, life insurance policies can be taken out by spouses or anyone who is able to prove they have an insurable interest in the person. If you buy insurance on someone else’s life (a spouse, for example), the policy pays when that person dies.

TOP CONSIDERATIONS

There are many different types of life insurance policies, you should choose a policy with features that fit your individual needs. Based on their unique characteristics, it is possible to identify several distinct types of life insurance coverages. However, they fall into two classes of life insurance products: term and cash value policies.

Term life insurance – is a policy that is purchased for a period of time (a term). The policy pays money to the named beneficiaries if the insured dies during the term. Term life insurance is intended to provide lower-cost coverage for a specific period.

Term life policies may include a provision that allows coverage to continue (renew) at the end of the term, even if your health status has changed. However, those premiums may be higher than the original policy. Ask what the premiums will be before you renew. Also, ask if you lose the right to renew at a certain age. If the policy is non-renewable you will need to apply for coverage at the end of the term.

A **cash value life insurance policy** is different because you can keep it for as long as you need it. These policies also have savings or investment features, which make it possible for policy owners to get money from the policy while they are still alive. Whole life, universal life and variable life are types of cash value policies.

Everyone’s financial situation is different. First, decide if life insurance is even necessary. If it is, following are some questions to ask.

Ask Yourself:

- How much of the family income do I provide?
- Will these financial obligations change over time?
- Knowing that the risk of death increases each year, in how many years do you anticipate the need for death benefits?

Ask the Agent:

- Do I pay the premiums on a set schedule?
- Does the policy have a cash value?
- Do the policy values change from year to year?
- What part of the premium or policy value isn't guaranteed?
- Are there guaranteed minimums on my policy?

HOW TO PROTECT YOURSELF

If you already have life insurance, it's important to compare your current policy with any new policy you might consider. Also, keep in mind that any changes in your health may affect your ability to get a new policy or the premium that you'll pay. Don't cancel a current policy until you get a new one.

Before you buy a life insurance policy, be sure you can afford the premium. The premiums for many life insurance policies are sensitive to changes in the company's investment earnings, claim costs, and other expenses. Be sure to ask what the highest premium might be to keep your coverage.

Does your policy have a cash value? In some cash value policies, the values are low in the early years but build later. In other policies, the values build up gradually over time. Ask your insurance agent, financial advisor or insurance company representative for an illustration showing future values and benefits. Most term policies have no cash value.

THINGS TO REMEMBER

1. Work with your agent to make sure you understand how your policy works and that you clearly understand the payouts.
2. It is important to tell the truth on the application. Insurance companies will check your answers, so review the application before you sign. As with any insurance product, any false statements on the application could reduce or cancel your coverage.
3. Read your policy carefully to make sure your personal information is correct and that you included the Social Security or tax ID number of all beneficiaries.
4. Insurance companies won't pay a minor. Instead, consider leaving the money to an estate or trust.

More Information

If you have insurance-related questions or concerns, please call the Department's toll-free hotline at 1-877-564-7323. Additional information is available on the Department of Insurance website at doi.nebraska.gov.