



Should you purchase term insurance or is permanent insurance the better buy? If you already own a term policy, should you convert it to a permanent plan, such as whole life? Or is a flexible plan such as universal life the way to go?

There are no simple, easy answers to these questions. And that is not because the three kinds of insurance are so complex and difficult to understand—actually, the differences between them are basic and easily comprehensible, as we will see below. No, what makes these questions difficult is that the answers depend on you, your budget and your needs. One kind of insurance is not necessarily “better” than the other, and they are certainly not mutually exclusive. More than likely, your choice will not be “either/or” but “the best mix.”

Term, Whole Life, Universal

Term insurance provides economic protection for a specified period (or “term”) at a specified rate. It is “no frills” coverage that is very inexpensive at younger ages and becomes increasingly more expensive as you get older. Its “premium” (what you’re required to pay to keep the policy in force) increases each term (since you also can buy this kind of insurance for periods of one, seven or even ten years). It is designed to lock-in insurability for conversion to permanent insurance in the future.

Permanent insurance, on the other hand, provides permanent protection, coverage for your whole life. “Whole life” insurance offers a level or fixed premium that is guaranteed never to go up, because it averages insurance costs over your lifetime. In the early years, therefore, premiums are higher than the amount required for only pure death benefit protection.

If that were all there was to it, the choice between term and permanent insurance would be straightforward: Whatever your age, buy the cheaper product. However, the premium you pay in the early years of a whole life policy helps to build a guaranteed tax- deferred “cash value,” which is available during your lifetime, in the form of policy loans that can be used to meet emergencies, fund education expenses, or provide income for retirement. Moreover, whole life policies from mutual insurance companies are generally “participating,” which means they earn dividends.

What about universal life? Like whole life, this kind of insurance is permanent, offering lifetime protection and cash value accumulation. Unlike whole life, however, universal-type policies feature an adjustable death benefit and flexible premiums. After making an initial minimum premium payment, policy owners may pay whatever they desire, subject to IRS and company minimum/ maximum rules; they may even skip premium payments for a year or longer. The policy's death benefit may fluctuate accordingly. With a universal policy, you have added flexibility to adjust your death benefit and premium payments according to your current needs.

Which Is Best for You?

Term insurance is normally the better buy for the younger age groups and for the short run. It makes the ideal choice when you're young and just starting out and on a strict budget, since it allows you to buy the full amount of coverage you need at an affordable price. After all, there is no point to buying a permanent policy if you simply can't afford it; you'll either buy less coverage than you need or, even worse, lose your money as well as your coverage if you allow the policy to lapse because of nonpayment.

Term insurance is perfect when your needs are temporary, when you need protection until a debt, such as a mortgage or a business or education loan is paid off. Generally speaking, if your need for protection lasts ten years or less, or will cease entirely before age 50, term insurance is an intelligent buy. If you don't need protection after a certain point in your life—let's say the children have left home, your spouse is self-supporting, additional income is not needed for retirement years, or you have no desire to leave an inheritance or need to protect an estate or business, then term insurance is right for you. However, if you will need insurance for an extended period—for 10 or more years—and if you do have the kinds of needs listed above, you should consider permanent plans, such as whole life and universal life.

Some things to consider:

- Many "Baby Boomers" who are now in their mid 50s and early 60s are still financing a mortgage, paying for their children's college education, recovering from the damage done to their retirement nest eggs by the financial crisis of 2008 and perhaps even helping to fund care for their parents. They are the first generation of Americans to be handling these responsibilities simultaneously. Permanent insurance provides not only necessary economic protection, but also the kind of asset accumulation opportunity they need to meet converging demands. Over time, it is much more cost-efficient than term insurance.
- After the age of 50, permanent insurance is almost certainly the better buy, since term premiums increase considerably thereafter and are not recoverable in the form of cash value or dividends. Permanent insurance, however, allows you to leave your options open in respect to economic protection, retirement and education funding, and estate planning. It can be used to boost monthly retirement income. It can also be a major estate planning tool, enabling you to minimize estate taxes and provide liquidity for your heirs.
- What about the retirement years? The cash value in a permanent policy can be used to supplement Social Security, pension benefits, and investment income. You can borrow from it or even turn it into an annuity generating monthly income for life - subject to certain limitations.

Choosing the Best Mix

What if you're sold on the value of permanent insurance but can't afford all the coverage you need? You have some options. You can buy the term insurance you need and gradually convert it, piece by piece, into permanent insurance. (Most term policies have a "conversion" privilege that allows you to turn your term insurance into permanent insurance without proving good health.) Let's say you need \$200,000 worth of insurance; you can buy a term policy for that amount and later convert \$50,000 of it into a permanent plan, keeping the rest of the term in force to convert in the future. Whether you choose to convert to whole life or universal life will depend on your specific needs for an adjustable death benefit and flexible premium payments.

Another option is to buy a permanent plan with term insurance added to it. If, again, you need \$200,000 of insurance but can only afford to pay for little more than \$100,000 of permanent coverage, you may be able to buy a base plan with \$100,000 of cash value insurance and, for only a little more money, a \$100,000 "term rider." Or you might buy a \$200,000 universal life policy, starting off with the minimum premium and gradually increasing those payments as circumstances allow.

When all is said and done, you needn't be thinking in terms of "term versus permanent." Rather, you should be thinking of what is the best mix of term and permanent insurance that will meet your needs. With the help of your New York Lift agent, you can design an insurance plan that is flexible and affordable—a customized plan that will meet your needs and help you reach your goals.



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