

Investment Insight: Buying Life Insurance - What Kind and How Much?



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You are likely to need life insurance if others depend on you for financial support, if you provide your family with such services as child care, if you need to consider protecting a surviving spouse or if you have accumulated substantial assets. There are several types of life insurance that you may want to consider.

Types of Insurance

Term insurance is the most basic, and generally least expensive, form of life insurance for people under age 50. A term policy is written for a specific period of time, typically between one and 10 years, and may be renewable at the end of each term. Premiums increase at the end of each term and can become prohibitively expensive for older individuals. A level term policy locks in the annual premium for periods up to 30 years.

Whole life combines payment protection with a savings component. As long as you continue to pay the premiums, you are able to lock in coverage at a level premium rate. Part of that premium accrues as cash value. As the policy gains value, you may be able to borrow up to 90% of your policy's cash value tax-free.

Universal life is similar to whole life with the added benefit of potentially higher earnings on the savings component. Universal life policies are also highly flexible in regard to premiums and face value. Premiums can be increased, decreased or deferred, and cash values can be withdrawn. You may also have the option to change face values. Universal life policies typically offer a guaranteed return on cash value, usually at least 2.0%. You'll receive an annual statement that details cash value, total protection, earnings, and fees. Drawbacks include higher fees and interest rate sensitivity — your premiums may increase when interest rates decrease.

Variable life generally offers fixed premiums and control over your policy's cash value, which is invested in your choice of stock, bond, or subaccount

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The complexities of building, preserving and passing along wealth have never been greater. Affluent investors are increasingly seeking guidance and comprehensive solutions that consider their unique circumstances and long-term goals. It's my pleasure to work with such individuals to offer insight, advice and solutions in helping them reach their goals.

options. Cash values and death benefits can rise and fall based on the performance of your investment choices. Although death benefits usually have a floor, there is no guarantee on cash values. Fees for these policies may be higher than for universal life, and investment options can be volatile. On the plus side, capital gains and other investment earnings accrue tax deferred as long as the funds remain invested in the insurance contract.

How Much Insurance Do I Need?

A popular approach to buying insurance is based on income replacement. In this approach, a formula of between five and 10 times your annual salary is often used to calculate how much coverage you need. Another approach is to purchase insurance based on your individual needs and preferences. In this instance, the first step is to determine how much income you need to replace.

Start by determining your net earnings after taxes (insurance benefits are generally income tax free). Then add up your personal expenses (food, clothing, transportation, etc.) This will provide an idea of the annual income that your insurance will need to replace. You'll want a death benefit which, when invested, will provide income annually to cover this amount. Remember to add amounts needed to fund one-time expenses such as college tuition or paying down your mortgage.

Purchasing the right type of insurance in an amount that is suitable for your family's needs is an important element in financial planning. I have the resources available to conduct an in-depth review of your current insurance policies to see if they still provide adequate coverage, or possibly too much coverage. Please contact me if you wish me to evaluate any and all policies you may have.

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