Types of Life Insurance

There are basically two types of life insurance, term or permanent. Both types have their usefulness depending on the situation and goals of the purchaser. Term is generally for shorter periods, or situations where a person needs lots of coverage at a lower price (till children are grown). Permanent or whole life insurance is for the person who wants to make sure insurance is there when they need it, at death. I'd like to have a dollar for everyone who bought term thinking that at age 65 their ship would be in and they wouldn't need insurance. Turns out many of those people simply outlived their coverage by either living too long, financially couldn't afford it, or could not buy more because of health conditions.

Term

- Term life is insurance reduced to the basics. It is for a limited time, usually from one to 30 years, and only pays on the death of the insured. There may be riders that cover spouses and children. Premiums are stable during the policy life, and some term policies can be guaranteed renewable. Term life insurance is usually purchased as level term, meaning that the benefits stay the same throughout the life of the policy. A less expensive variant, decreasing term life, drops the death benefit a little each year during the policy's life. This is often used to cover a mortgage or to provide potential stability when expenses are higher, such as when there are children in the home. It can be the most expensive of term types of insurance as the premium stays level but the death benefit decreases each year.

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Traditional Whole Life/Permanent

- Whole life covers the insured for just that---the entire lifetime, unless it is canceled. Premiums are higher in the early part of the policy to provide funding to pay for the increased premiums as the insured ages. These overpayments are available for withdrawal by the policyowner when he reaches a predetermined level. The policyowner may also accrue dividends in the policy which can be used to reduce premiums and in some cases pay the entire premium and eliminate out of pocket costs.

Universal or Adjustable Life

- Universal is a variant of whole life. It includes a "cash value account" which is the whole life overpayment while earning a money market rate of interest. The policyowner can use these funds to reduce the premium amount, fund the premiums completely until it runs out or allow the beneficiary to take it in cash value upon the death of the insured. There is also a Universal Indexed policy that gives the policyowner stock market type gains, but also has a minimum guarantee return regardless of investment outcome.

Variable Life

- Variable life is another variant of whole life but with a savings feature, allowing the owner to invest in the money market, stocks or bonds. The theory is that there is potential for both greater growth and risk. Variable life usually has a bottom floor which insures the beneficiary receives a certain, minimum amount of cash.

Variable-Universal Life

- Combining the two policies allows the policyowner to have the best of both policies. The premiums and death benefits can be adjusted, and the investment rewards and risks are still available. These types of policies allow the policyowner to assume more of the risk.