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Don't Buy Too Much Insurance!

Firms are pushing everything from cancer coverage to tuition protection. We check the latest policies—and lay out what you really need.



In this age of hurricanes, tsunamis, market crashes and banking crises, it isn't any wonder that people are feeling insecure. Companies are responding by rolling out a raft of newfangled insurance policies designed to protect against real—and perceived—risks.

What to Buy

In addition to health insurance, some other types of coverage are indispensable. Among them:

- **Term life insurance.** This type of life insurance—which provides a death benefit for a specific period, such as 10 to 20 years, with premiums generally set at a flat rate—is the best bet for most people, say independent insurance consultants. "Permanent life" insurance, by contrast, combines a death benefit with a savings account, and carries steep commissions. Unless you are using the policy to build tax-deferred savings, there are few real benefits.

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Traditional term life insurance can be the ideal solution if your goal is to cover a set period of time at a set cost. If you pass away the day after the term of the policy the insurance company does not pay your beneficiaries a single penny.

For example, if you purchase a 20-year term when your child is born and you pass away 21 years later (when your mortgage is only 50% paid off and the third year of college tuition comes due); the insurance company pays your beneficiaries nothing. With traditional term life insurance the insurance company returns 0% of the premiums you paid at the end of the term.

With Return of Premium term life insurance the insurance company returns 100% of the premiums you paid at the end of the term. With Convertible term life insurance you lock in the price for permanent insurance at some point in the future (the older you are the higher the price).

With Universal life insurance you are insured for the rest of your life, as it is a form of permanent life insurance. Unlike Convertible term life insurance that locks in the price for permanent insurance at some point in the future, Universal life insurance locks in the price for permanent insurance now (affording you the lowest price).

Unlike Whole life insurance (a very costly form of permanent insurance), Universal life insurance policies are not designed to build cash value ("savings account"). Thus, you are purchasing the largest amount of permanent life insurance for the smallest premium.

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