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Honestly, What's the Best Policy?

Insurance Agents Are Pushing Pricey 'Permanent Life' Aggressively. Here's What You Need to Know



Misty and Richard Knight, two Pennsylvania college professors pictured with their daughters, bought two \$225,000 whole-life policies last year to supplement their term-life coverage.

Insurance agents have a story they can sell even harder than usual. But that doesn't mean you should buy it.

The recent market meltdown breathed new life into a much-maligned financial product: permanent life insurance. Part insurance policy and part savings account, permanent life's main benefit—safety—has suddenly become a big part of the pitch.

For most people, term life still offers the best combination of coverage and cost. But for some wealthier folks looking to build tax-deferred savings, permanent life can be a good option.

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Before purchasing a life insurance policy determine the proper level of coverage for your needs. Consider what the proceeds will be used for, including: paying a mortgage, college educations and estate taxes.

Before purchasing a policy determine the proper type of life insurance for your needs. With traditional term insurance the insurance company returns 0% of the premiums you paid at the end of the term. With Return of Premium term insurance the insurance company returns 100% of the premiums you paid at the end of the term. 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 (the older you are the higher the price), 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. Thus, you are purchasing the largest amount of permanent life insurance for the smallest premium.

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