

Money Matters

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Question of the Month: What insurance is best?

By Aaron Skloff

Q: I thought there were only two different types of life insurance policies, term and whole. What types of life insurance are available and how do they differ?

There are two basic categories of life insurance, term and permanent. Term may be appropriate if you only need protection for a limited time; to protect a mortgage, loan or college education. Permanent may be appropriate if you need lifetime coverage. Let's look at a variety of the most common term and permanent policies.

Traditional Term, as its name implies, covers you for a specified term, with 10, 20 and 30 years being the most common. Premiums are fixed over the term of the policy. It provides the greatest amount of coverage for the lowest premium.

Return of Premium Term, as it names implies, covers you for specified term, but then returns all of your premiums if you outlive the policy. Premiums are fixed over the term of the policy. It provides the second greatest amount of coverage for the second lowest premium.

Variable Life Permanent is a type of permanent life insurance that offers fixed premiums over your lifetime. Unlike most types of permanent life insurance, this type of policy is not designed to build up cash value. It provides the third greatest amount of coverage for third lowest premium.

Variable Universal Life Permanent is a type of permanent life insurance that offers flexible premiums based on how underlying investments inside the policy perform. Unfortunately the investments inside the VUL can drop, decreasing the policy's cash value and death benefit. Combining something that is intended to be your safest financial instrument (life insurance) with risky investments (stocks and bonds) can be a recipe for disaster. It provides second least amount of coverage; second highest premium.

Whole Life Permanent is a type of permanent life insurance that offers fixed premiums. As the insurance company generally charges more than the actual life insurance costs in the early years of the policy, cash value builds in this type of policy. It provides the least amount of coverage for the highest premium.

Establishing the right amount and right type of insurance allows you to control what you want to protect in the most cost effective matter. Like most insurance, the earlier you start your policy the lower the cost of the policy. Consult a licensed insurance professional to understand of all your options.

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